



Maine's Tax Burden: History and Projections Executive Summary

March 2006

PREPARED BY:

**Office of Fiscal
and Program Review**

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EXECUTIVE SUMMARY - HIGHLIGHTS

Maine's Tax Burden Ranking

Maine's tax burden has received much attention due to national comparisons of state and local tax burden based on data compiled by the US Department of Commerce, Bureau of Census (Census). Based on 2002 data, the most recent available, Maine ranks 2nd highest in tax burden expressed as a percent of personal income at 12.9% and 9th highest on a per capita basis at \$3,562 per capita (compilation by Federation of Tax Administrators). While this Census data overstates Maine's local property taxes, even using data compiled locally and calculated by the Office of Fiscal and Program Review (OFPR), Maine's tax burden in fiscal year 2002 still ranks very high compared to other states, 12.3% of personal income (3rd highest) and \$3,383 per capita (14th highest).

Maine's Tax Burden – History and Projections

- Maine's state and local tax burden expressed as a percent of personal income peaked in fiscal year 1998 at 13.8%, driven largely by the growth of taxable income from capital gains, but it is projected to decline to 12.3% by fiscal year 2009 (see Graph A – State and Local Taxes as a % of Personal Income).
- Maine's state and local taxes have grown at an average annual nominal rate of 6.1% from fiscal years 1986 to 2005 or 3.0% in that same period adjusting for inflation.
- Maine's state and local taxes are projected to increase by 3.4% average growth annually from fiscal years 2005 to 2009 or 0.4% on an inflation adjusted basis.
- Maine's state and local taxes are projected to increase on a per capita basis by \$471 from fiscal year 2005 to 2009 (see Graph B – State and Local Taxes Per Capita) or, after adjusting for inflation, taxes per capita decline by \$7 over the same period (see Graph C – State and Local Taxes Per Capita (Adjusted for Inflation)).
- Projections of Maine's reliance on the local property taxes in its tax mix remains high compared to other states at slightly less than 36% of total taxes and fees (see Graph D – State and Local Tax Mix).

BETR and Circuit Breaker Changes

Maine's effort to get "credit" in the national rankings for its 2 major property tax reimbursement program by changing their budgetary treatment contributes to the projected reduction of Maine's tax burden. The treatment of these tax programs as reductions of individual income tax rather than expenditures is projected to lower Maine's tax burden by approximately 0.2% of personal income and by nearly \$100 per capita. However, this reduction does not appreciably affect Maine's rank nationally.

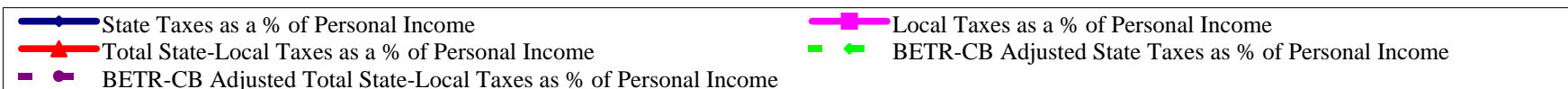
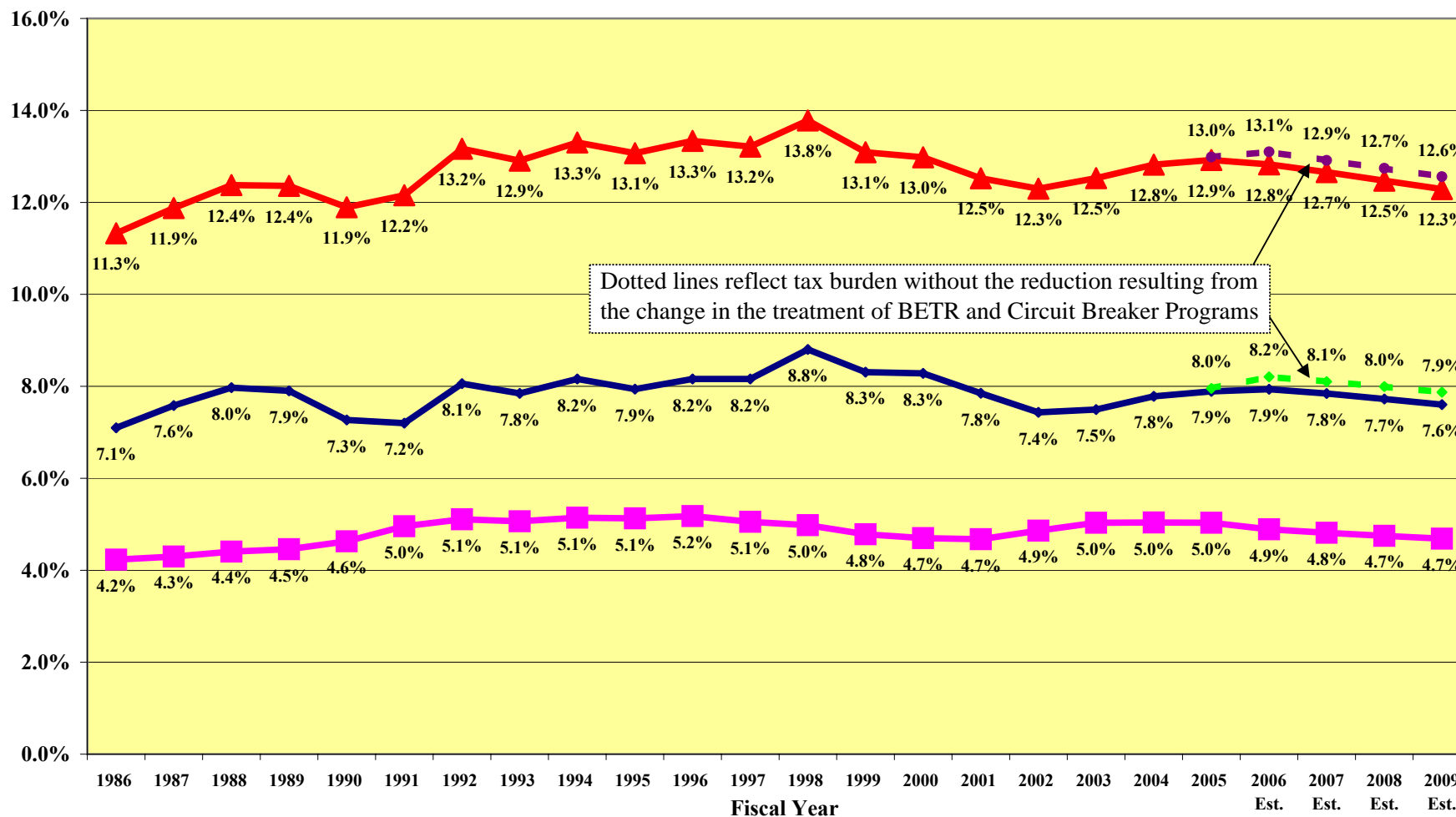
LD 1 (PL 2005, c. 2) – Property Tax Reform and Spending Limits

In January 2005, the Maine Legislature adopted statutory limits on spending and property tax increases. It is still too early to judge the full effect of these reforms. During its 1st partial year of implementation, the annual growth of local property tax commitments slowed to 1.6% after having an annual average growth rate over the last 20 years of 6.6%. At this point, it is extremely difficult to gather data and analyze local tax and spending patterns. Part of the tracking effort created by LD 1 is additional local data collection. Through this effort, future analyses and projections may be significantly improved.

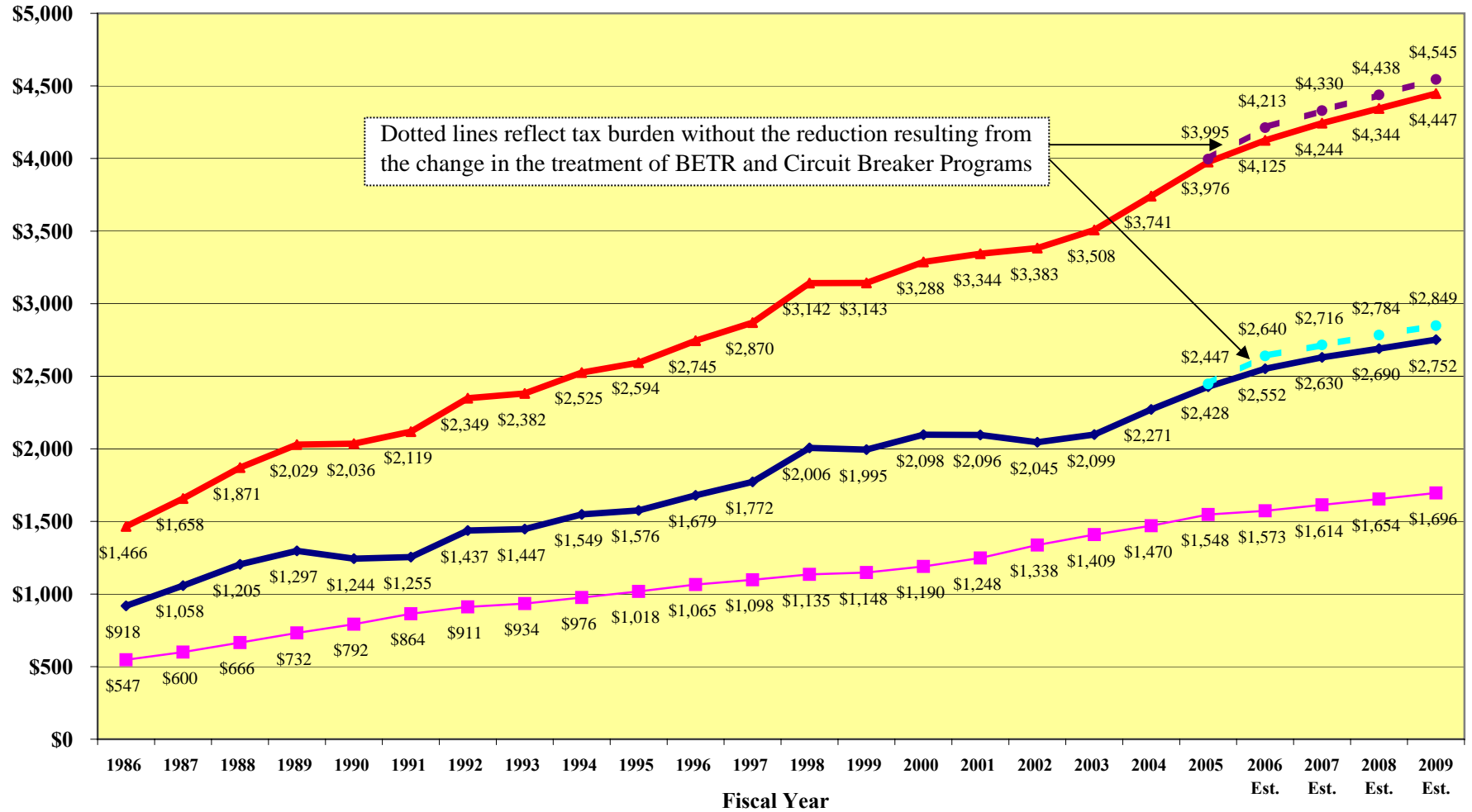
Maine's Tax Burden – Risks from Structural Gaps

This report projects Maine's tax burden through fiscal year 2009 assuming no changes in current law. Next January, the Governor and the Legislature will be making decisions on how to balance the General Fund and Highway Fund structural gaps for the 2008-2009 biennium. The General Fund structural gap is currently estimated to be \$425 to \$450 million and the Highway Fund structural gap is estimated to be \$80 to \$90 million. If these imbalances were addressed entirely through changes that increase revenue in a revenue source captured by Census' definitions, the projected reduction of Maine's tax burden would be eliminated.

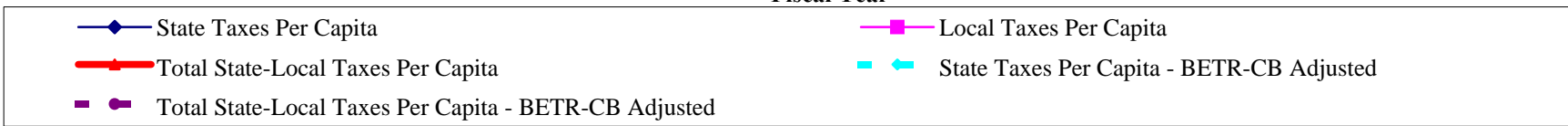
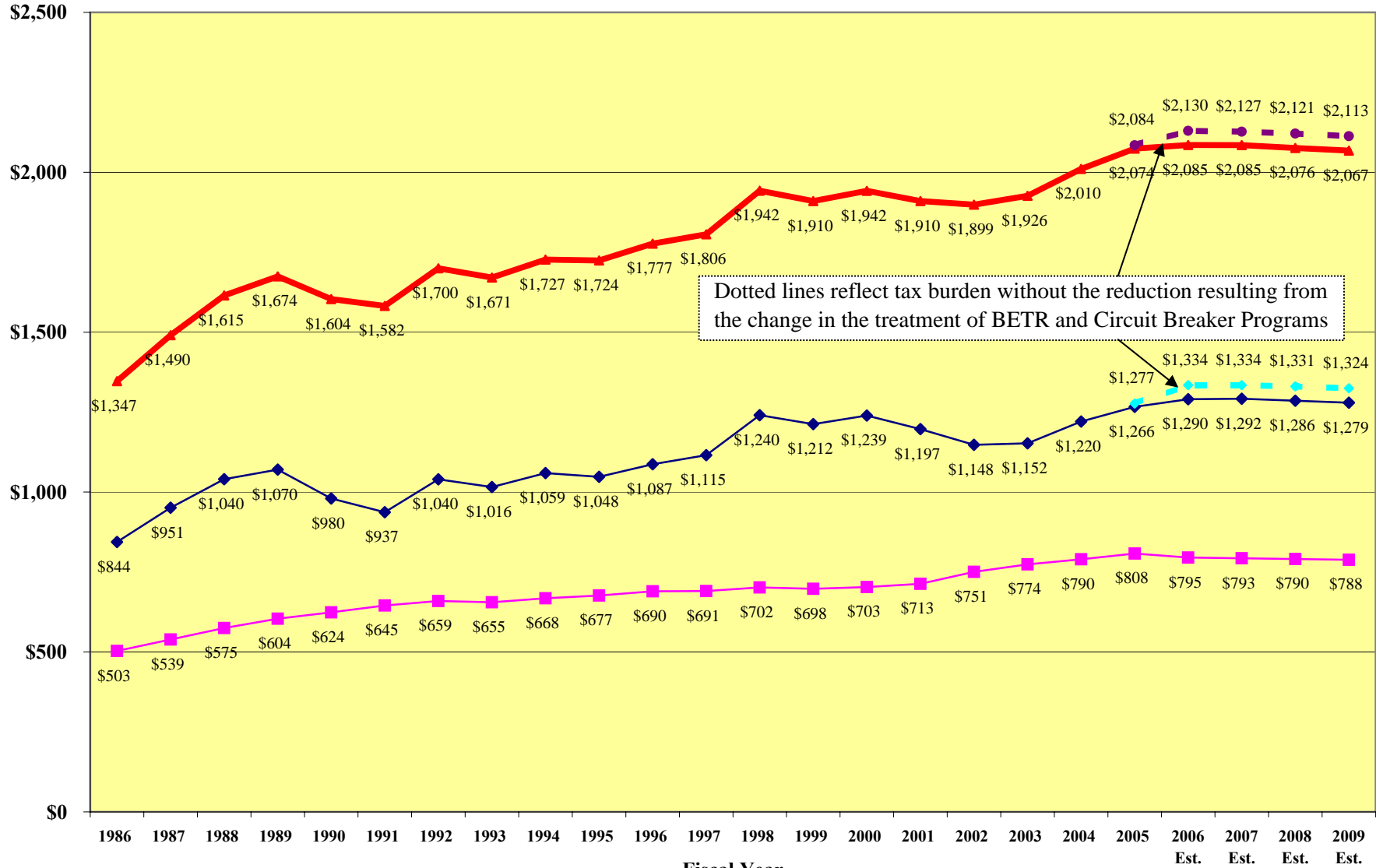
Graph A - State and Local Taxes as a % of Personal Income



Graph B - State and Local Taxes Per Capita



Graph C - State and Local Taxes Per Capita (Adjusted for Inflation)



**Graph D - State and Local Tax Mix
(Percentage of Total State and Local Taxes)**

